

December 23, 2003

Melanie DeLeon
Office of the Attorney General
1125 Washington Street SE
Olympia, WA 98504

Dear Melanie:

The Interveners are very concerned that the current discussions over changes to Premera's conversion application will fail to address key issues, most importantly the potential impact on providers and patient care.

On December 11, 2003, Commissioner Kreidler granted Premera's request to amend its Form A application to convert to a for-profit corporation. See Commissioner's Twenty-Third Order.

The following day, Premera and the OIC Staff each submitted outlines of the issues they wished to raise during the amendment process.

Premera's outline contains no reference whatsoever to any matter that has a direct bearing on physicians, hospitals, or patients.

The OIC Staff outline only mentions one such matter: the possible effect on premiums and reimbursement rates in Eastern Washington.

The remaining issues under review are worthy of attention. The Interveners share many of the concerns raised by the OIC Staff, among them its interest in seeing that executive compensation and shareholder rights are addressed in any modified conversion application.

Of course, the mere fact that discussions are underway is not in itself sufficient. For example, any changes to the Foundation Shareholder agreement must fully and fairly capture the value of the company for the public benefit.

Amendments that address only these concerns, however, will be woefully inadequate to remedy the fundamental flaws identified by the OIC Staff's outside experts and Intervener Groups.

Melanie DeLeon
December 23, 2003
Page Two

As you know, patient and provider concerns represent a significant focus of the OIC experts' reports (as well as that of the Intervener's expert, Aaron Katz), each of which concluded that Premera's original proposal was not in the public interest. The Interveners were therefore surprised to see that the discussions would not devote substantial attention to these critical issues.

The Economic Impact analysis conducted by PriceWaterhouseCoopers, for example, reveals many potential adverse consequences of the proposed conversion that are not identified on the OIC's or Premera's lists of proposed subjects, including pressure to:

1. Decrease reimbursement to physicians and hospitals throughout the state. See, i.e., Executive Summary 7, pp. 10, 16, 36, 44 – 49, Table 9-3, 9-5.
2. Decrease contracting options for physicians. See, i.e., pg. 45.
3. Abandon participation in Healthy Options, Basic Health Plan, and the Children's Health Insurance Plan. See, i.e., pp. 62, 71 – 73.

We believe that, at minimum, the successful resolution of these important issues, as identified in the OIC expert reports, is necessary to safeguard the health care delivery system in the State of Washington.

The Interveners are aware that they are limited to observer status in the discussions regarding changes to the conversion application. Accordingly, we have decided to submit this letter as a means of bringing our concerns to the attention of the other parties.

Sincerely,

Jeff Coopersmith
on behalf of
The Washington State Medical Association and
The other Intervener Groups